How to Run a Performance Based Procurement Program

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Value Based Project Delivery

Performance Based Studies Research Group
The Concepts Discussed Today Have Been Developed by Dean Kashiwagi at the Performance Based Studies Research Group at Arizona State
Best Value Model

0. PRE-QUALIFICATION
1. SELECTION
2. CLARIFICATION/ PRE-AWARD
3. MANAGEMENT BY RISK MINIMIZATION
PHASE 1 - SELECTION
Selection

• Hiring or selecting who will create the plan and execute it

• The quality of the plan and its execution is directly linked to the individuals creating it and doing the work
  • Quality of Plan = Minimization of Risk & Cost
What are we trying to accomplish?

**Question:**

*If Purchasing wants to buy a “green circle”, in which scenario is hiring the right “green circle” easiest to justify?*
## Value Based Project Delivery

### PHASE 1 - SELECTION

<table>
<thead>
<tr>
<th>Filter 1</th>
<th>Filter 2</th>
<th>Filter 3</th>
<th>Filter 4</th>
<th>Filter 5</th>
<th>Project Execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal Evaluations</td>
<td>Interview Key Personnel &amp; Demos</td>
<td>Prioritization (Identify Best Value)</td>
<td>Cost Reasonableness Check</td>
<td>Pre-Award &amp; Clarification</td>
<td>Risk Reporting &amp; Close Out Rating</td>
</tr>
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</table>

### Evaluation Criteria
- Financial Proposal
- Project Capability
- Risk Assessment
- Value Added
- Past Performance Information (PPI)

### Filter 2
- Interview Key Personnel & Demos
- Short List prior to Interviews / Demos (if necessary)

### Filter 3
- Prioritization
- Total Evaluation Scores are determined

### Filter 4
- Cost Reasonableness Check
- Logic check to confirm Selection of the potential Best Value Proponent

### Filter 5
- Pre-Award & Clarification
- Logic check to confirm Selection of the potential Best Value Proponent

### Pre Award Activities
- Training
- Kickoff Meeting
- Planning & Clarifying
- Summary Meeting

### Project Execution
- Weekly Risk Report
- Director Report
- Performance Meas.
- Close Out Ratings

### Contract Award
Selection – Value Based Proposition

Selection dictates the maximum capacity to achieve a quality plan

Procurement methodologies to identify expertise:

- Risk and Value focused RFP Process
- Simple, brief, anonymous evaluation process
- Evaluation of key project personnel
  - Proven Past Performance Information
  - Ability to identify, prioritize, and minimize risk
  - Interviews of project delivery personnel
  - Focus on specific project needs
  - Minimize marketing information
- Cost/Financial
Example of Solutions

Risk: Design of Heating/Cooling System
Type: Project Capability

Plan 1
- We will use our 20 years of experience in working with mechanical systems to minimize the risk of the heating and cooling system design.

Plan 2
- We have identified the design of the heat/cooling system as a risk. It has not been used before in the area. Will ensure that the system performance and installation is verified in the pre-award period.
- We have bid using best rated mechanical contractor in the area (rated at 9.8 out of 10.0, next best rated 9.1)
- Mechanical contractor identified modifications to the design to improve output and sustainability of the system with the following impacts (mechanical system cost minimized by 15% - see VA#1)
- Mechanical system will be provided by one manufacturer, and will be commissioned by the manufacturer, contractor, and general contractor, who will take full responsibility of commissioning the system.
Value Add Plan

1. Provide ways to keep project at or below budget
   • Modifications to requirements to meet budget
   • Specific cost ($) savings
   • Supported by metrics (high performance)

2. Increase customer satisfaction

3. Increase performance
Scope is Above Budget

Owner’s Scope

Owner’s Budget ($$)

(-$ value add)
Intent Doesn’t Match Scope

Owner’s Budget ($$)

Owner’s Intent

Owner’s Scope

(+$ value add)
Example: Value Added Items

• Reroofing this building will not stop all water leaks. The majority of the leaks are caused by cracks in the parapet walls, broken/missing glass, and poor caulking. For an additional $10K and 3 weeks in schedule we can replace and repair all of these items.
Best Value Interviews: Identifying Expertise

1. Why were you selected for this project?

2. How many similar projects have you worked on? Individually and as a Team?

3. Describe a similar project you have developed/worked on to the current project.

4. What is different about this project from other projects that you have worked for?

5. Draw out the process for this project by major milestone activities.
   i. Identify, prioritize, and how you will minimize the risks of this project.
   ii. What risks don’t you control? How will you minimize those risks?
   iii. What do you need from the client and when do you need it?

6. How are you going to measure your performance during the project?

7. What value do you bring to the project in terms of differences based on dollars, quality, expertise, or time?
# Prioritization

## PHASE 1 - SELECTION

<table>
<thead>
<tr>
<th>NO</th>
<th>CRITERIA</th>
<th>POINTS</th>
<th>FIRM A</th>
<th>FIRM B</th>
<th>FIRM C</th>
<th>BEST</th>
<th>FIRM A POINTS</th>
<th>FIRM B POINTS</th>
<th>FIRM C POINTS</th>
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<tr>
<td>1</td>
<td>Cost</td>
<td>250</td>
<td>$145,000</td>
<td>$150,000</td>
<td>$170,000</td>
<td>$145,000</td>
<td>250</td>
<td>242</td>
<td>213</td>
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<td>2</td>
<td>Interviews</td>
<td>350</td>
<td>4.5</td>
<td>8.1</td>
<td>6.2</td>
<td>8.1</td>
<td>194</td>
<td>268</td>
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<td>3</td>
<td>Risk Assessment Plan</td>
<td>200</td>
<td>5.1</td>
<td>8.7</td>
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<td>8.7</td>
<td>117</td>
<td>172</td>
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<tr>
<td>5</td>
<td>Value Assessment Plan</td>
<td>100</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>6</td>
<td>PPI – Firm (1-10)</td>
<td>25</td>
<td>9.5</td>
<td>9.2</td>
<td>9.1</td>
<td>9.5</td>
<td>25</td>
<td>24</td>
<td>23</td>
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<tr>
<td>7</td>
<td>PPI – Firm (Surveys)</td>
<td>25</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>PPI – Project Manager (1-10)</td>
<td>25</td>
<td>9.5</td>
<td>9.2</td>
<td>8.8</td>
<td>9.5</td>
<td>25</td>
<td>24</td>
<td>23</td>
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<tr>
<td>9</td>
<td>PPI – Project Manager (Surveys)</td>
<td>25</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>25</td>
<td>13</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1000</strong></td>
<td><strong>723</strong></td>
<td><strong>990</strong></td>
<td><strong>838</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL POINTS (1,000):** 723 990 838
Clarification / Pre-Award
How to Clarify a Plan

What is it / Why is it important?

- Period of time allotted before work begins to the entity doing the work:
  - Present their project/service plan
  - Set a plan for its delivery / clarify that their plan is accurate
  - Identify the risks and issues that could cause the plan to deviate
    1) Identify what you don’t know and when you will know it and how the plan could change based upon what you discover
    2) Set plans to minimize those risks from occurring
    3) Address all the concerns and risks of the client
How to Clarify a Plan
What is it / Why is it important?

- Period of time allotted before work begins to the entity doing the work:
  - Know how they are being successful and adding value (measurement)
    1) What metrics you will use and how you will report them
    2) What is the current baseline condition we are comparing against
  - Identify what you need from the client and have a plan for getting it
  - Have completely aligned expectations between all parties so everyone knows what is going to transpire and what they are supposed to do
  - Coordinate the schedule
Clarification / Preplanning Period

Very High Level
- Cost Verification
- Included in Proposal
- Excluded from Proposal
- Major Assumptions
- Major Client Risks/Concerns

High Level
- Project Work Plan
- Client Risks/Concerns
- PA Schedule
- Uncontrollable Risks
- Response to all risks
- Roles and Responsibilities
- Value Added Ideas
- Coordination
- Review Functionality

Technical Level
- Performance Reports / Metrics
- Additional Documentation
- Technical Details
- Project Schedule
- High level demos
- PA Document
Importance of Pre-Planning
University of Alberta

Bad news is really good news if found out during Pre-Planning (Pre-Award / Clarification period)

- Execute the project in advance of actually executing the project

- Ex: DB Balmoral Facility – Cyclotron
  - Highly sensitive schedule & budget
  - Formal pre-planning enabled the team to optimize the facility and minimize surprises that could have driven other changes.
Importance of Pre-Award

Pre-Award Impact - Major Risks Identified & Mitigated

- **Actual Building dimensions**
  - Field review revealed significant square footage difference from bridging documents
  - DB proposed floor layouts to incorporate additional space & minimize cost impact

- **Cyclotron Vault Design**
  - Wall thickness, foundations, piling, shielding
  - DB proposal minimized schedule impact

- **Existing structure concerns**
  - Field review revealed cracking on perimeter concrete beams
  - DB proposed to address structural issues during roof deck replacement
## Impact of Clarification/Pre-Award

**General Services Administration**

<table>
<thead>
<tr>
<th>No</th>
<th>CRITERIA</th>
<th>Traditional RFP</th>
<th>ASU-BV</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of projects analyzed</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>Total awarded cost</td>
<td>$14,244,385</td>
<td>$9,994,887</td>
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<tr>
<td>3</td>
<td>Total awarded schedule</td>
<td>1,822</td>
<td>1,373</td>
</tr>
<tr>
<td>4</td>
<td>Percent awarded cost below budget</td>
<td>4.4%</td>
<td>6.0%</td>
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<tr>
<td>5</td>
<td>Average time RFP Release to Contract</td>
<td>68 days</td>
<td>78 days</td>
</tr>
<tr>
<td>6</td>
<td>Average BV-PA duration (days)</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Average Overall Change Order Rate</td>
<td>50% Decrease</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Average Overall Project Delay Rate</td>
<td>38% Decrease</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>GSA Satisfaction Rating of Contractor/Job</td>
<td>34% Increase</td>
<td></td>
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</tbody>
</table>

For within BV projects, also tested “<1 week” PA vs “>1 week” PA
- Longer PA had 33% lower change order rate (**73% reduced overall**)
- Longer PA had 69% lower delay rate (**73% reduced overall**)
Best Value Model

1. SELECTION
2. CLARIFICATION/ PRE-AWARD
3. MANAGEMENT BY RISK MINIMIZATION

AWARD CONTRACT
Management By Risk Minimization
Measured Environment

- Must be simple and dominant
- Must be for the purposes of positive accountability
- Transparency and openness
- Measuring against a plan (or expectation created by the individual/team doing the work)
**Weekly Risk Report**

- Excel Spreadsheet that tracks only unforeseen risks on a project
- Client will setup and send to vendor once Award/NTP issued
- The final project rating will be impacted by the accuracy and timely submittal of the WRR

<table>
<thead>
<tr>
<th>No</th>
<th>Date Entered</th>
<th>Risk Items</th>
<th>Plan to Minimize Risk</th>
<th>Planned Resolution Date</th>
<th>Actual Date Resolved</th>
<th>Impact Days to Critical Path</th>
<th>Impact to Cost</th>
<th>Owner/Contractor Generated</th>
<th>Satisfaction Rating (1-10)</th>
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</thead>
<tbody>
<tr>
<td>0</td>
<td>3/17/2006</td>
<td>EXAMPLE: Risk A</td>
<td>Risk A Plan: 1) Problem background - why is this an unexpected project risk? 2) What will be done to minimize this? 3) Who is responsible for the plan? 4) What kind of impact will this have?</td>
<td>9/9/2006</td>
<td>75</td>
<td>$10,000</td>
<td>O</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>
Measurement of Deviation from the Expectation
Management by Risk Minimization

Risk Management Plan
- Risk
- Risk minimization
- Schedule

Weekly Report
- Risk
- Unforeseen risks

Unforeseen Risks

Metrics
- Time linked
- Financial
- Operational/Client Satisfac.
- Environmental

Performance Summary
- Vendor performance
- Client performance
- Individual performance
- Project performance
**Value Based Project Delivery**

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**Project Execution**  Risk Reporting & Close Out Rating

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**Short List prior to Interviews / Demos (if necessary)**

**Total Evaluation Scores are determined**

**Logic check to confirm Selection of the potential Best Value Proponent**

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**UPDATE PPI**
**Project Management Model**

**Initial Conditions**
- **C1**: Client Expectations based decisions and various factors – may or may not be “realistic”

**Time**

**Final Conditions**
- **M1**: Measured expert plan that more accurately describe the initial conditions replaces C1 – converts to a predictive contract
- **M2**: RMP/WRR measures deviation & performance to plan
- **M3**: Final performance measurement

**C1**

**M1**

**M2**

**M3**

**LAWS**
What is different?

• Value focus, simple, transparent, risk-based, measured, expertise-driven

• Leverage experience of industry experts to minimize risks and increase efficiency

• Select and give advantage to high performers in the procurement process, consider value (cost & ability) *(the capability of the key PEOPLE you hire will correlate more to project success than any other factor)*

• Proper preplanning BEFORE contract is signed

• Risk-based, value-based contracting

• Consistent measurement of risk and performance with accountability loops
What Are Your Thoughts or Questions?
Thank You!

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